

PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Federal Open Market Committee

Conference Call

January 5, 1988

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Heller
Mr. Johnson
Mr. Keehn
Mr. Kelley
Ms. Seger
Mr. Stern

Messrs. Black, Forrestal, Hoskins, and Parry,
Alternate Members of the Federal Open Market
Committee

Messrs. Melzer and Morris, President of the
Federal Reserve Banks of St. Louis, and
Boston, respectively

Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Truman, Economist (International)

Messrs. Lindsey and Prell, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

Mr. Coyne, Assistant to the Board, Board of
Governors

Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Mr. Czerwinski, First Vice President, Federal
Reserve Bank of Kansas City

Transcript of Federal Open Market Committee Conference Call
of January 5, 1988

[Secretary's note: The conference call began with a report from Mr. Sternlight that was not transcribed.]

CHAIRMAN GREENSPAN. In view of what we've been observing of late, what I would like to do is to close out our directive of the December 15-16th meeting by posing a rewording of the second sentence in our draft operational paragraph, which I think all of you have received. I'll just repeat it. It sort of captures the report that we have heard today and it reads: "The Committee agrees that the passing of the year-end should permit further progress toward restoring a normal approach to open market operations, although still sensitive conditions in financial markets and uncertainties in the economic outlook may continue to call for some flexibility in operations." This would be in lieu of the sentence currently, or preliminarily, in the operational paragraph which reads: "The Committee recognizes that still sensitive conditions in financial markets and uncertainties in the economic outlook may continue to call for a special degree of flexibility in open market operations." Does anyone have any objections to that replacement?

MS. SEGER. I'm not convinced that we've progressed that much toward normality, myself. That's just my gut reaction.

CHAIRMAN GREENSPAN. Well, that's basically what the paragraph says we should be sensitive towards.

MR. ANGELL. It seems to me that that would be an appropriate change. In fact, that's not really very far away from what we anticipated when we were doing it. I think it makes it a little more clear. And it seems to me, at this point, that it would be unfortunate for us to give a wrong signal to the market that we either have attempted to ease or have attempted to tighten. I think this restatement gives us a continued ability to be flexible in that regard until the next FOMC meeting and yet not over-encourage the notion that we are pegging the fed funds rate.

MR. JOHNSON. I think the statement is fine. I like the idea. As you know from the last FOMC [meeting], my concern was that trying to ease into a borrowing target didn't seem to make a lot of sense to me. Why wouldn't we just continue to pursue the same spread we had, and see if borrowings normalize, rather than try to hit a borrowing number we're not sure about? I think that sentence better characterizes that concern.

MR. KELLEY. Mr. Chairman, this is Mike Kelley. I quite agree with the thrust of the statement, but I'd raise the question of whether using the phrase "the passing of the year-end" might not raise questions to persons in years down the line about where that's coming from. I don't think there is any other clear reference to that point in the trail we are leaving.

CHAIRMAN GREENSPAN. I think the abnormalities that we expected were discussed and will be discussed in the minutes of the

previous meeting, as I recall. I think you're quite right; I think we better make certain that it is clear in that context.

MR. KELLEY. I may be wrong, but I don't remember a previous reference to the significance of the year-end. We have discussed it, of course, but is it--

CHAIRMAN GREENSPAN. Yes; that will appear in the minutes.

MR. ANGELL. That will show up in the minutes.

MR. KELLEY. I guess in the full minutes there will be some--

CHAIRMAN GREENSPAN. Yes.

MR. KELLEY. Okay, if that's the case then.

CHAIRMAN GREENSPAN. We will make certain that it does.

MR. ANGELL. So, what we're doing here is making a change in the directive which does not amend the original. What we have is the directive up to now; now we have a new directive from here to the end of this FOMC period.

CHAIRMAN GREENSPAN. That's correct. It includes the previous directive with the substitution of this second sentence for the old second sentence.

MR. ANGELL. But the minutes will show what we did on December 15-16?

CHAIRMAN GREENSPAN. Yes, of course.

MR. ANGELL. And the minutes will now show what we're doing now?

CHAIRMAN GREENSPAN. That is correct.

VICE CHAIRMAN CORRIGAN. Mr. Chairman, this is Jerry [Corrigan] in New York. I certainly would support a change. And with respect to Governor Kelley's point, I would throw out the idea that the sentence could read "the Committee agreed that with the passing of time and the year-end", or something like that, but--

CHAIRMAN GREENSPAN. I have no objection to that. Does anybody?

MR. HOSKINS. This is Lee Hoskins. I think I agree with moving back to this language. I guess I question doing it in this reserve period, when there is massive intervention going on and there's a possibility the funds rate will stay substantially above 7 percent, giving the impression to the market that we are, in fact, evolving policy in order to support the dollar.

CHAIRMAN GREENSPAN. I think that we can make it fairly clear that that is not the case, because it is not.

MR. ANGELL. Well, but you don't want any statement in the minutes to that effect.

CHAIRMAN GREENSPAN. No, I don't. I think that that would be a very important misinterpretation of policy. I think we would work to avoid that becoming the market's perception. What means would be required, I don't know; but we would do that.

MR. TRUMAN. To put it the other way around, Mr. Chairman, if the Committee were to tighten policy because of what's going on in the foreign exchange market, then that fact would have to be reflected in the discussion in the policy record, as has been the case in the past. So, I think people who are knowledgeable about our procedures would know that the absence of any statement that there was any tightening because of the dollar would be left with the interpretation that there wasn't. That's essentially the status quo. That's certainly the way it was done, for example, in September. The September action--that that tightening was, in part, associated with the conditions in late August in the foreign exchange market--was clearly acknowledged in the policy record.

MR. HELLER. For the rest of the period, where would you see reserves and the fed funds rate in the absence of any additional fires?

MR. STERNLIGHT. Well, we hear about continuing operational problems, and they may be having their further effects today. I think we will work our way past them and I'd expect to see funds coming back down to roughly the area they were in the last few full reserve periods.

MR. HELLER. So, back to 6-3/4 percent?

MR. STERNLIGHT. About the 6-3/4, 6-7/8ths area, yes.

MR. HELLER. And the borrowing then would be--

MR. STERNLIGHT. Well, borrowing is clearly going to average very high, as I say--

MR. HELLER. No, I mean for the rest of the period, from now on.

MR. STERNLIGHT. In the \$300 million area. It would average \$1.3 or \$1.4 billion in this period.

MR. JOHNSON. No, he said the rest of the period.

MR. HELLER. For the rest of the period, from now on, it would be \$350 million--is that right? Or \$400 million?

MR. JOHNSON. Well, the target is \$300 million.

MR. HELLER. \$300 million?

MR. STERNLIGHT. We use \$300 million in the path.

MR. HELLER. \$300 million.

MR. STERNLIGHT. As I say, mathematically, if it dropped down to the \$300 million area for the rest of the period, it would still come out \$1.3 or \$1.4 billion for the period, on average, because it averages now over \$3 billion for the first, whatever it is, 5 days.

CHAIRMAN GREENSPAN. Okay, if there are no further questions, I'd like to proceed to vote. Normand.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman Corrigan	Yes
Governor Angell	Yes
President Boehne	Yes
President Boykin	Yes
Governor Heller	Yes
Governor Johnson	Yes
President Keehn	Yes
Governor Kelley	Yes
Governor Seger	No
President Stern	Yes

CHAIRMAN GREENSPAN. If there are no other questions, I think that we have completed our agenda. Unless anyone wants to pick up any other subjects, I will assume that the meeting is closed. We look forward to seeing you at the next Open Market Committee meeting--on what date?

MR. BERNARD. February 9 and 10.

CHAIRMAN GREENSPAN. February 9 and 10.

MR. ANGELL. Just to be sure I understand: these words we have adopted now will be shown as substitutes for the other words?

CHAIRMAN GREENSPAN. No, both will be in the--

MR. ANGELL. Right. But we're not going to put the whole directive back out again?

CHAIRMAN GREENSPAN. No; that won't be necessary.

MR. ANGELL. Okay.

MR. BERNARD. We will reproduce the operational paragraph and show the vote.

MR. ANGELL. Yes.

CHAIRMAN GREENSPAN. Thank you very much, ladies and gentlemen. Good night.

END OF SESSION